MICROECONOMICS - TEST ONE

NAME \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Forty-four multiple choice questions, each worth 2 points; and two short-answer questions, each worth 6 points. For each question, circle **the best** answer.

1. The study of economics is primarily concerned with:

A) keeping private businesses from losing money.

B) keeping economics professors from starving to death.

C) choices that are made in seeking to use scarce resources efficiently.

D) determining the most equitable (fair) distribution of the government's money.

2. Even though the Orlando Sentinel is inexpensive, people rarely buy more than one of them each day. This fact:

A) is an example of irrational behavior.

B) implies that reading should be taught through phonics rather than the whole language method.

C) contradicts the economic perspective.

D) implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.

3. The basic purpose of the "other things equal" (ceteris paribus) assumption is to:

A) allow one to reason about the relationship between price and quantity of X without the intrusion of a change in the price of *Z*.

B) allow one to focus upon micro variables by ignoring macro variables.

C) allow one to focus upon macro variables by ignoring micro variables.

D) allow one to reason about the relationship between revenues and expenses of a business.

4. Which of the following is a **microeconomic** statement?

A) The real U.S. output increased by 2.5 percent last year.

B) Unemployment was 6.8 percent of the U.S. labor force last year.

C) The price of personal computers declined last year.

D) The general price level (inflation) increased by 4 percent last year.

5. The problems of aggregate (at the national level) inflation and unemployment are:

A) major topics of macroeconomics.

B) not relevant to the U.S. economy.

C) major topics of microeconomics.

D) peculiar to socialistic economies.

6. "If you leave a football game at the end of the third quarter, you will avoid traffic and get home more quickly. Therefore, everyone should leave the game early." This illustrates the:

A) "sore loser syndrome" (loser doesn't want to see the end of the game when his team is losing.)

B) adverse selection problem.

C) fallacy of division.

D) fallacy of composition.

7. If we say that two variables are **inversely** related, this means that:

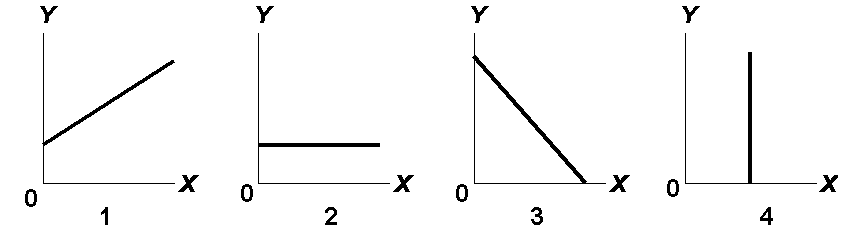
A) the two graph as an upsloping line.

B) an increase in one variable is associated with a decrease in the other.

C) an increase in one variable is associated with an increase in the other.

D) the resulting relationship can be portrayed by a straight line parallel to the horizontal axis.

Use the following to answer question 8:



8. Answer on the basis of the relationships shown in the above four figures. The amount of *Y* is **inversely** related to the amount of *X* in:

A) 2 only. B) both 1 and 3. C) 3 only. D) 1 only.

9. The fundamental problem of economics is:

A) to establish a democratic political framework for the smooth operation of the government.

B) the establishment of prices that reflect the relative scarcities of products and resources.

C) dealing with the scarcity of productive resources relative to an unlimited number of economic wants.

D) What do I do to get out of poverty?

10. Which of the following is **real capital (as we define it in economics)**?

A) a pair of stockings B) a construction crane C) a savings account D) a share of IBM stock

11. Economics can best be defined as the study of:

A) how to profitably invest one's income in stocks and bonds.

B) how to use scarce productive resources efficiently.

C) how government policies affect businesses and labor.

D) managing business enterprises for profit.

12. A production possibilities curve shows:

A) that resources are unlimited.

B) that people prefer one of the goods more than the other.

C) the maximum amounts of two goods that can be produced assuming the full and efficient use of available resources.

D) combinations of labor only necessary to produce specific levels of output.

13. Opportunity cost is **best** defined as:

A) the monetary price of any productive resource.

B) the amount of labor that must be used to produce one unit of any product.

C) the ratio of the prices of imported goods to the prices of exported goods.

D) the amount of one product that must be given up to produce one more unit of another product.

14. "Allocative efficiency" refers to:

A) the use of the least-cost method of production.

B) the production of the product-mix most wanted by society.

C) the full employment of all available resources.

D) production at some point inside of the production possibilities curve.

15. A demand curve:

A) shows the relationship between price and quantity **supplied**.

B) indicates the quantity demanded at each price in a series of prices.

C) graphs as an upsloping line.

D) shows the relationship between income and spending.

16. If two goods are complements (like pepperoni pizza and beer):

A) they are consumed independently.

B) an increase in the price of one will increase the demand for the other.

C) a decrease in the price of one will increase the demand for the other.

D) they are necessarily inferior goods.

17. If the demand curve for product B shifts to the right as the price of product A declines, then:

A) A and B are substitute goods. B) A is a normal good and B is an inferior good.

C) A is an inferior good and B is a normal good. D) A and B are complementary goods.

18. An increase in consumer incomes (like when one wins the big Fantasy Five prize) will:

A) increase the demand for an inferior good. B) increase the supply of an inferior good.

C) increase the demand for a normal good. D) decrease the supply of a normal good.

Use the following to answer question 19:



19. A decrease in **quantity demanded** (as distinct from a decrease in **demand**) is depicted by a:

A) move from point x to point y. B) a shift from D1 to D2. C) shift from D2 to D1. D) move from point y to point x.

20. The law of supply:

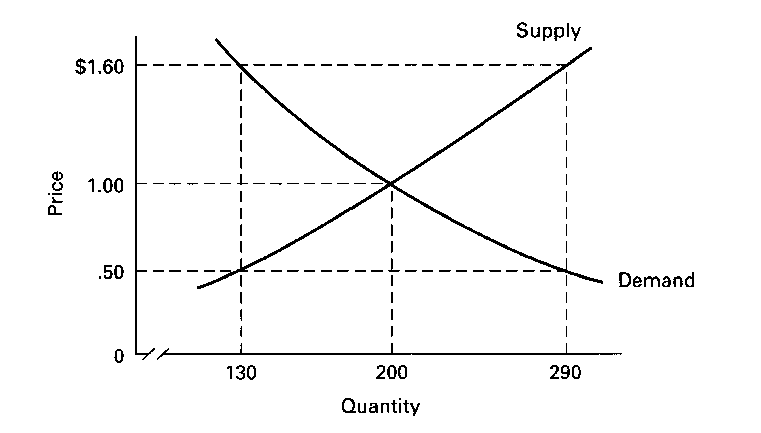
A) reflects the amounts that producers will want to offer at each price in a series of prices.

B) is reflected in a downsloping supply curve.

C) was enacted by Congress to force businesses to produce goods that society wants.

D) reflects the income and substitution effects of a price change.

Use the following to answer question 21:



21. Refer to the above diagram. A shortage of 160 units would be encountered if price was:

A) $1.10, that is, $1.60 minus $.50.

B) $1.60.

C) $1.00.

D) $.50.

22. At the equilibrium price:

A) quantity supplied may exceed quantity demanded or vice versa. B) there are no pressures on price to either rise or fall.

C) there are forces that cause price to rise. D) there are forces that cause price to fall.

23. One can say with certainty that equilibrium **quantity** of enchiladas bought and sold will increase when:

A) supply and demand both decrease. B) supply increases and demand decreases.

C) the price of the salsa to go with them will go up. D) supply and demand both increase.

24. Competition means that:

A) sellers can manipulate market price by causing product scarcities.

B) there are many independently-acting buyers and sellers in each market.

C) a product can be purchased at a number of different prices.

D) there is only one seller in a market.

25. A firm's economic profit is:

A) usually lower than its normal profit. B) profit over and above normal profit

C) a cost of production. D) a signal to the firm that it is producing too much output.

26. "The 'dollar votes' of consumers ultimately determine the composition of output and the allocation of resources in a market economy." This statement best describes the concept of:

A) political demand. B) consumer sovereignty.

C) "supply creates its own demand." D) market failure.

27. The "invisible hand" refers to the:

A) fact that the U.S. tax system redistributes income from rich to poor.

B) notion that, under competition, buying and selling decisions motivated by self-interest promote the social interest.

C) tendency of monopolistic sellers to raise prices above competitive levels.

D) hands of shoplifters caught "red-handed" by video cameras at stores such as Wal-Mart.

28. The personal distribution of income in the United States is such that **the richest fifth** receives about \_\_\_\_\_ percent of total personal income.

A) 5 B) 30 C) 50 D) 95

29. The three basic legal forms of business enterprise are:

A) monopolists, price fixers, and rip-off artists. B) proprietorships, partnerships, and corporations.

C) vertical, horizontal, and conglomerate corporations. D) conglomerates, multinationals, and partnerships.

30. The advantages of the corporate form of business (corporations) include:

A) the ability to raise financial capital by selling stocks and bonds.

B) managers' ability to pay themselves any salary they want.

C) the elimination of the principal-agent problem.

D) single taxation of corporate earnings.

31. If a corporation goes bankrupt, its stockholders will lose:

A) only the value of their stock.

B) the value of their stock plus any other business assets they may own.

C) the value of their stock plus any other personal assets they may own.

D) the value of their stock plus any other business and personal assets they may own.

32. The owners of a business face unlimited liability for the business’ debts in:

A) a corporation.

B) a partnership, but not in a proprietorship.

C) a proprietorship, but not in a partnership.

D) both a proprietorship and a partnership.

33. Stocks are:

A) promises to repay a loan. B) also known as bonds.

C) issued by sole proprietorships. D) shares of ownership of a corporation.

34. The U.S. Food Stamp program, which provides coupons that allow low-income individuals to buy food, is an illustration of:

A) public provision of a suitable legal framework for the market system.

B) the re-distributional function of government.

C) a government action designed to enhance competition.

D) the stabilization function of government.

35. Spillovers or externalities:

A) relate to costs only. B) relate to benefits only.

C) relate to both costs and benefits. D) have been legislated out of existence.

36. Which of the following is a type of public good?

A) tires B) cars C) highways D) gasoline

37. The "free-rider problem" refers to the fact that:

A) government subsidizes the fares of many municipal mass-transit systems.

B) government arbitrarily attaches excise taxes to a select list of goods and services.

C) the benefits associated with public goods cannot be denied to those who are unwilling to pay for them.

D) homeless people expect free rides on lynx buses.

38. The major source of tax revenue for the Federal government is:

A) personal income taxes (i.e., your wallet and mine).

B) property taxes.

C) corporate income taxes.

D) sales and excise taxes.

39. A progressive tax is such that:

A) tax rates (percentages) are higher the greater one's income.

B) the revenues it yields help our country make **progress** on the fight on poverty.

C) entrepreneurial income is exempt from taxation.

D) the revenues it yields are spent on transfer payments.

40. According to the concept of comparative advantage, a good should be produced in that nation where:

A) its domestic opportunity cost is greatest.

B) money is used as a medium of exchange.

C) its domestic opportunity cost is least.

D) the terms of trade are maximized.

Use the following production possibilities table for countries Alpha and Beta to answer question 41:



41. Refer to the above tables. The domestic opportunity cost of one unit of X in Alpha is:

A) 2 units of Y.

B) 4 units of Y.

C) 1 unit of Y.

D) 3 units of Y.

42. Appreciation of the Mexican peso will:

A) make Mexico's exports and imports both more expensive.

B) make Mexican tortillas coming into the U.S. more expensive to U.S. consumers.

C) make Mexican jalapeno peppers less expensive in the U.S.

D) increase Mexican exports.

43. Import **quotas** are:

A) maximum limits on the quantity or total value of specific products imported to a nation.

B) excise taxes or duties placed on imported products.

C) licensing requirements, unreasonable quality standards, and the like designed to impede imports.

D) government payments to domestic producers to reduce the world prices of exported goods.

1. Which of the following has been an outcome of the North American Free Trade Agreement (NAFTA)?
   1. a lower standard of living in The United States, Mexico, and Japan
   2. lower wages in the United States, Mexico and Japan
   3. increased trade among Canada, Mexico, and the United States
   4. lower wages and reduced employment in all of Central America
2. Short Answer (Worth 6 points). Explain with an example **one** of the five basic determinants of demand that could cause demand to **decrease.**
3. Short Answer (Worth 6 points). Explain with an example **one** of the economics effects of a depreciation of the dollar on foreign exchange markets

**Answer Key – MicroTestOne**

1. C

2. D

3. A

4. C

5. A

6. D

7. B

8. C

9. C

10. B

11. B

12. C

13. D

14. B

15. B

16. C

17. D

18. C

19. D

20. A

21. D

22. B

23. D

24. B

25. B

26. B

27. B

28. C

29. B

30. A

31. A

32. D

33. D

34. B

35. C

36. C

37. C

38. A

39. A

40. C

41. B

42. B

43. A

44. C

MICROECONOMICS - TEST TWO

Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Forty- three multiple-choice questions, each worth 2.325 points. Select **the best** answer.

1. The concept of price elasticity of demand measures:

A) the number of sellers in a market.

B) the number of buyers in a market.

C) the extent to which the demand curve shifts as the result of a price decline.

D) the sensitivity of consumers to price changes.

2. The basic formula for the price elasticity of demand coefficient is:

A) absolute decline in quantity demanded/absolute increase in price.

B) percentage change in quantity demanded/percentage change in price.

C) absolute decline in price/absolute increase in quantity demanded.

D) percentage change in price/percentage change in quantity demanded.

3. If the price of a case of Budweiser falls from $10 to $9 and, as a result, the quantity demanded increases from 100 to 150, then:

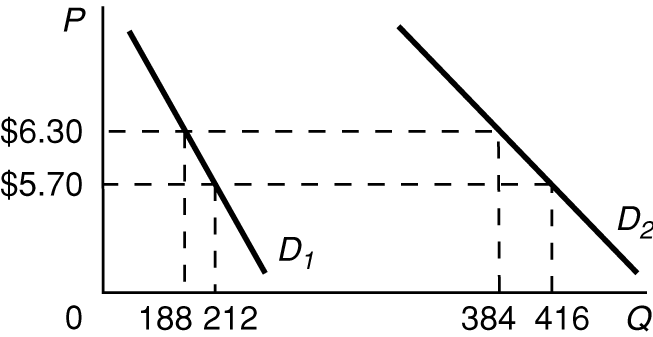
A) demand is elastic.

B) demand is inelastic.

C) demand is of unit elasticity.

D) the number of DWIs will probably decline due to the substitution effect.

Use the following diagram to answer question 4:



4. Refer to the above diagram, **and remember the formula for price elasticity of demand to answer this.** Between prices of $5.70 and $6.30:

A) *D*1 is more elastic than *D*2.

B) *D*2 is more elastic than *D*1.

C) *D*1and *D*2 have identical elasticities.

D) None of the above

5. Valencia Community College raises tuition for the purpose of increasing its revenue so that a hefty salary increase can be given to economics professors!!!!!. VCC is assuming that the demand for education at VCC is:

A) decreasing.

B) relatively elastic.

C) perfectly elastic.

D) relatively inelastic.

6. If a price reduction reduces a firm's total revenue:

A) the demand for the product is inelastic in this price range.

B) the product is an inferior good.

C) in this price range the elasticity coefficient of demand is greater than 1.

D) this price decline will increase the firm's profits.

7. The elasticity of demand for a product is likely to be greater:

A) if the product is a necessity, rather than a luxury good.

B) the greater the amount of time over which buyers adjust to a price change.

C) the smaller the proportion of one's income spent on the product.

D) the smaller the number of substitute products available.

8. An anti-drug policy that reduces the supply of crack cocaine might:

A) reduce the price of a "fix" from a $20 to a $10.

B) reduce street muggings because the addict's demand for crack cocaine is highly elastic.

C) increase street muggings because the addict's demand for crack cocaine is highly inelastic

D) increase street muggings because the addict's demand for crack cocaine is highly elastic.

9. A price floor means:

A) that inflation is severe in this particular market.

B) that monopolistic sellers are artificially restricting supply to raise price.

C) the floor where Walmart and other retailers house their pricing and marketing departments.

D) that government is imposing a legal price that is above the equilibrium price.

10. The law of diminishing marginal utility states that:

A) total utility is maximized when consumers get the same amount of utility **per unit**  (not per dollar) of each product consumed.

B) beyond some point additional units of a product will yield less and less extra satisfaction to a consumer.

C) price must be lowered to induce firms to supply more of a product.

D) it will take larger and larger amounts of resources beyond some point to produce successive units of a product.

11. Cesar Saladino likes rum. The first shot of rum yields him 18 units of utility; the second yields him 12 more units of utility. If he drank a third shot, his **total** utility from the 3 drinks would be 38 units of utility. The marginal utility of the **third** shot would be:

A) 38 units of utility.

B) 30 units of utility.

C) 8 units of utility.

D) zero, even though he still wouldn’t be drunk.

12. Utility refers to the:

A) satisfaction that a consumer derives from a good or service.

B) rate of decline in a product demand curve.

C) relative scarcity of a product.

D) phenomenon that made SUVs (sports utility vehicles) very popular.

13. Suppose that MU*x*/*Px* exceeds MU*y*/*Py* . To maximize utility the consumer who is spending all her money income should buy:

A) less of X only if its price rises.

B) more of Y only if its price rises.

C) more of Y and less of X.

D) more of X and less of Y.

14. Julio Garbanzo normally orders two tacos, but on seeing they are on sale, decides to buy three. Julio's decision illustrates the:

A) law of increasing opportunity costs.

B) "hunger and cheap food" principle of consumption.

C) principle of comparative advantage.

D) principle of utility maximization.

15. The basic characteristic of the short run is that:

A) barriers to entry prevent new firms from entering the industry.

B) the firm does not have sufficient time to change the size of its plant.

C) the firm does not have sufficient time to cut its rate of output to zero.

D) a firm does not have sufficient time to change the amounts of any of the resources it employs.

16. To the economist total cost includes:

A) explicit and implicit costs, including a normal profit.

B) neither implicit nor explicit costs.

C) implicit, but not explicit, costs.

D) explicit, but not implicit, costs.

17. The law of diminishing returns indicates that:

A) as extra units of a variable resource are added to a fixed resource, marginal product will decline beyond some point.

B) because of economies and diseconomies of scale a competitive firm's long-run average total cost curve will be U-shaped.

C) the demand for goods produced by purely competitive industries is downsloping.

1. beyond some point the extra utility from additional units of a product will yield the consumer a lower satisfaction.

18. If you owned a small farm, which of the following would be a fixed cost?

A) harvest labor

B) hail insurance

C) fertilizer

D) seed

19. If you operated a small bakery, which of the following would be a variable cost in the short run?

A) baking ovens

B) interest on business loans

C) annual lease payment for use of the building

D) baking supplies (flour, salt, etc.)

20. Marginal cost is the:

A) rate of change in total fixed cost that results from producing one more unit of output.

B) change in total cost that results from producing one more unit of output.

C) change in average variable cost that results from producing one more unit of output.

D) change in average total cost that results from producing one more unit of output.

21. Economies of scale are indicated by:

A) the rising segment of the average variable cost curve.

B) the declining segment of the long-run average total cost curve.

C) the difference between total revenue and total cost.

1. a rising marginal cost curve.

22. Diseconomies of scale:

A) pertain to the long run.

B) pertain to the short run.

C) are synonymous with diminishing returns.

D) are synonymous with increasing returns.

23. Which of the following is *not* characteristic of pure competition?

A) price strategies by firms

B) a standardized product

C) no barriers to entry

D) a larger number of sellers

24. For a purely competitive seller, price equals:

A) average revenue.

B) marginal revenue.

C) total revenue divided by output.

D) all of the above.

25. A competitive firm in the short run can determine the profit-maximizing (or loss-minimizing) output by equating:

A) price and average total cost.

B) price and average fixed cost.

C) marginal revenue and marginal cost.

D) price and marginal revenue.

26. Assume the XYZ Corporation is producing 20 units of output. It is selling this output in a purely competitive market at $10 per unit. Its total fixed costs are $100 and its average variable cost is $3 at 20 units of output. This corporation:

A) should close down in the short run.

B) is maximizing its profits.

C) is realizing a loss of $60.

D) is realizing an economic profit of $40.

27. If a purely competitive firm shuts down in the short run:

A) its loss will be zero.

B) it will realize a loss equal to its total variable costs.

C) it will realize a loss equal to its total fixed costs.

D) it will realize a loss equal to its total costs.

Use the following to answer questions 28-30:

Answer questions 28-30 on the basis of the following data confronting a firm:



28. Refer to the above data. This firm is selling its output in a(n):

A) imperfectly competitive market.

B) monopolistic market.

C) purely competitive market.

D) oligopolistic market.

29. Refer to the above data. At the profit-maximizing output the firm's total revenue is:

A) $48.

B) $32.

C) $80.

D) $64.

30. Refer to the above data. The firm's:

A) economic profit is $12.

B) economic profit is $16.

C) loss is $14.

D) economic profit is $3.

31. DASH Airlines is considering the addition of a flight from Red Cloud to David City. The total cost of the flight would be $1100 of which fixed costs are $800. Expected revenues from the flight are $600. DASH should:

A) not add this flight because only flights which cover their full costs are profitable.

B) not add this flight because it is not profitable at the margin.

C) add this flight because marginal revenue exceeds marginal costs.

D) not add this flight because total costs exceed total revenue.

32. Long-run competitive equilibrium:

A) is realized only in constant-cost industries.

B) will never change once it is realized.

C) is not economically efficient.

D) results in zero economic profits.

33. A constant-cost industry is one in which:

A) resource prices fall as output is increased.

B) resource prices rise as output is increased.

C) resource prices remain unchanged as output is increased.

D) small and large levels of output entail the same total costs.

34. A pure monopolist is:

A) any firm realizing all existing economies of scale.

B) any firm whose demand curve is downsloping.

C) any firm which can engage in price discrimination.

D) a one-firm industry.

35. A natural monopoly occurs when:

A) long-run average costs decline continuously through the range of demand.

B) a firm owns or controls some resource essential to production.

C) long-run average costs rise continuously as output is increased.

D) economies of scale are obtained at relatively low levels of output.

36. A nondiscriminating pure monopolist's demand curve:

A) is perfectly inelastic.

B) coincides with its marginal revenue curve.

C) lies above its marginal revenue curve.

D) lies below its marginal revenue curve.

37. When a firm is on the inelastic segment of its demand curve, it can:

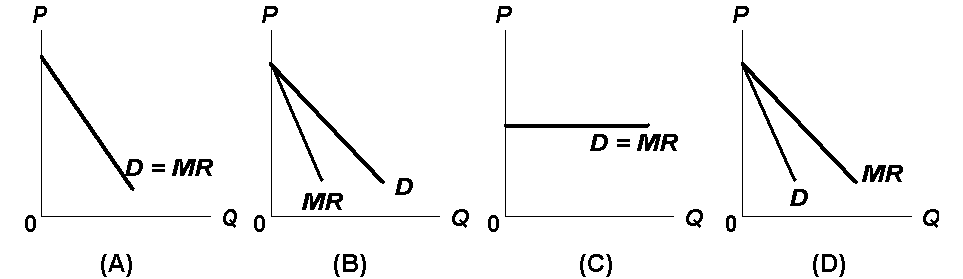
A) increase total revenue by reducing price.

B) decrease total costs by decreasing price.

C) increase profits by increasing price.

D) increase total revenue by more than the increase in total cost by increasing price.

Use the following to answer question 38:



38. Which of the above diagrams correctly portray the demand (*D*) and marginal revenue (MR) curves of a pure monopolist that is practicing perfect price discrimination?

A) A

B) B

C) C

D) D

39. The MR = MC rule:

A) applies only to pure competition.

B) applies only to pure monopoly.

C) does not apply to pure monopoly because price exceeds marginal revenue.

D) applies both to pure monopoly and pure competition.

40. If a monopolist's marginal revenue is $3.00 and its marginal cost is $4.50, it will increase its profits by:

A) reducing output and raising price.

B) reducing both output and price.

C) increasing both price and output.

D) raising price while keeping output unchanged.

41. In the short run a pure monopolist's profit:

A) will be maximized where price equals average total cost.

B) may be positive, zero, or negative.

C) are always positive.

D) will be zero.

42. Price discrimination refers to:

A) selling a given product for different prices at two different points in time.

B) any price above that which is equal to a minimum average total cost.

C) the selling of a given product at different prices that do not reflect cost differences.

D) the difference between the prices a purely competitive seller and a purely monopolistic seller would charge.

43. If a regulatory commission wants to provide a natural monopoly with a fair return, it should establish a price that is equal to:

A) minimum average fixed cost.

B) average total cost.

C) marginal cost.

D) marginal revenue.

**Answer Key -- MicroTest2**

1. D

2. B

3. A

4. A

5. D

6. A

7. B

8. C

9. D

10. B

11. C

12. A

13. D

14. D

15. B

16. A

17. A

18. B

19. D

20. B

21. B

22. A

23. A

24. D

25. C

26. D

27. C

28. C

29. A

30. B

31. C

32. D

33. C

34. D

35. A

36. C

37. C

38. A

39. D

40. A

41. B

42. C

43. B

MICROECONOMICS - TEST THREE (FINAL EXAM)

Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Thirty-five multiple choice questions, each worth 2.86. Please circle the BEST answer.

1. Use your basic knowledge and your understanding of market structures to answer this question. Which of the following companies most closely approximates a monopolistic competitor?

A) Subway Sandwiches

B) Pittsburgh Plate Glass

C) Ford Motor Company

D) Microsoft.

2. In the long run, new firms will enter a monopolistically competitive industry:

A) provided economies of scale are being realized.

B) even though losses are incurred in the short run.

C) until minimum average total cost is achieved.

D) until economic profits are zero.

3. In an oligopolistic market:

A) one firm is always dominant.

B) products may be standardized or differentiated.

C) the four largest firms account for 20 percent or less of total sales.

D) the industry is monopolistically competitive.

4. Mutual interdependence means that each oligopolistic firm:

A) faces a perfectly elastic demand for its product.

B) must consider the reactions of its rivals when it determines its price policy.

C) produces a product identical to those of its rivals.

D) produces a product similar but not identical to the products of its rivals.

5. If the firms in an oligopolistic industry can establish an effective cartel, the resulting output and price will approximate those of:

A) a purely competitive producer.

B) a pure monopoly.

C) a monopolistically competitive producer.

D) an industry with a low four-firm concentration ratio.

6. OPEC (The Organization of Petroleum Exporting Countries) is a good example of:

1. a pure monopoly
2. a purely competitive conglomerate of countries
3. a cartel
4. a merger of countries for geographic hegemony

7. Obstacles to collusion (as it relates to oligopolies) **do not** include:

A) Cheating by oligopoly members

B) Antitrust laws

C) Demand and cost differences

D) Population growth

8. Technological advance is a three-step process involving:

A) invention, duplication, and diffusion.

B) duplication, innovation, and diversity.

C) invention, innovation, and diffusion.

D) necessity, invention, and satisfaction.

9. As pizza topped with barbecue chicken (ummm!!!... yummie!!) became popular at specialty restaurants, Pizza Hut introduced a similar pizza. This imitation illustrates:

A) innovation.

B) invention.

C) creative destruction.

D) diffusion.

10. The marginal benefit (not to be confused with the marginal cost) to a firm from its R&D expenditures is depicted by its:

A) interest-rate-cost of funds curve.

B) expected-rate-of-return curve.

C) venture capital acquisition curve.

D) retained earnings pay-out curve.

11 The corporate decision on type and level of R&D activity is difficult because:

A) the interest-rate cost of funds is difficult to estimate.

B) much of corporate R&D is based on the pursuit of science, not on the profit motive.

C) expected returns lie in the future and are highly uncertain (no way of knowing if the research will be successful).

D) total returns and marginal returns greatly diverge.

12. A profit-maximizing firm should not undertake a R&D project for which the:

A) Expected rate of return exceeds its interest-rate cost of funds.

B) interest-rate cost of funds exceeds the expected rate of return.

C) expected returns are in the future.

D) interest-rate cost of funds is too low.

13. Suppose a firm anticipates that a particular R&D expenditure of $100 million will result in a new product and thus create a one-time added profit of $108 million a year later. The firm will:

A) undertake the R&D expenditure if its interest-rate-cost of borrowing is 12 percent.

B) undertake the R&D expenditure if its interest-rate-cost of borrowing is10 percent.

C) undertake the R&D expenditure if its interest-rate-cost of borrowing is 9 percent.

D) undertake the R&D expenditure if its interest-rate-cost of borrowing is 7 percent.

14. When economists say that the demand for labor is a derived demand, they mean that it is:

A) dependent on government expenditures for public goods and services.

B) related to the demand for the product or service labor is producing.

C) based on the desire of businesses to exploit labor by paying below equilibrium wage rates.

D) based on the assumption that workers are trying to maximize their money incomes.

15. Marginal revenue product measures the:

A) amount by which the extra production of one more worker increases a firm's total revenue.

B) decline in product price that a firm must accept to sell the extra output of one more worker.

C) increase in total resource cost resulting from the hire of one extra unit of a resource.

D) increase in total product resulting from the production of one more unit of a product.

16. Assume that McDonald's hires a new cook, and that the MRC of that cook is $16 and his MRP is $12. On the basis of this information **alone** (don’t add any other information) we can say that:

A) profits will be increased by hiring additional cooks.

B) profits will be increased by hiring fewer cooks.

C) marginal revenue product must exceed average revenue product.

D) the cook is producing the juiciest BigMacs.

Use the following to answer question 17:



17. Refer to the above graph. An increase in the quantity of labor demanded (**as distinct from an increase in demand)** is shown by the:

A) shift from labor demand curve *D*1 to *D*2.

B) shift from labor demand curve *D*3 to *D*2.

C) move from *a* to *b* along labor demand curve *D*1.

D) move from *b* to *a* along labor demand curve *D*1.

18. If resources A and B are **complementary** (not substitutes) in the production of whoppers and employed in fixed proportions:

A) a change in the price of A will have no effect on the quantity of B employed.

B) an increase in the price of A will increase or decrease the demand for B, depending on how juicy the whoppers are.

C) an increase in the price of A will increase the demand for B.

D) an increase in the price of A will decrease the demand for B.

19. Suppose capital and labor are used in fixed proportions so that each machine requires only one worker, and they are **substitutes**. If a decline in the price of **capital** occurs, then the demand for **labor** will:

A) increase because of the substitution effect and decline because of the output effect.

B) increase solely because of the substitution effect; that is, there is no output effect.

C) decline because of the substitution effect and increase because of the output effect.

D) decrease solely because of the output effect; that is, there is no substitution effect.

20. Assuming a competitive resource market, a firm is hiring several resources in the profit-maximizing amounts when the:

A) firm's total outlay on resources is minimized.

B) marginal revenue product of each resource is equal to its price.

C) price of each resource employed is the same.

D) marginal revenue product of the last unit of each resource hired is the same.

21. If a firm is hiring variable resources *D* and *F*, it will minimize the cost of producing any level of output by employing *D* and *F* in such amounts that:

A) the price of each input equals its MP.

B) MP*D* = MP*F*.

C) MP*D*/*PD* = MP*F*/*PF*.

D) MP*D*/*PF* = MP*F*/*PD*.

22. If the nominal interest rate on car loans rose by 5% in 2000 and inflation increased by 3%, then the real interest rate on car loans:

A) increased by 5 percent.

B) increased by 2 percent.

C) increased by 3 percent.

D) increased by 8 percent.

23. The real interest rate will rise if the nominal interest rate:

A) falls more rapidly than inflation.

B) increases at the same rate as labor productivity.

C) increases more rapidly than inflation.

D) falls at the same rate as inflation.

24. If an exclusive union is successful in restricting the supply of labor, the:

A) wage rate will rise.

B) the quantity of labor demanded will rise:

C) the number of job opportunities in the firm or industry will increase.

D) the demand for labor curve will shift leftward.

25. The equilibrium interest rate equates:

A) nominal and real interest rates.

B) the quantities demanded and supplied of money available for loans, or "loanable funds."

C) consumption and saving.

D) interest rates on Treasury bills and government spending.

26. **Read carefully.** The supply (not demand) curve of money available for loans is upsloping because:

A) individuals borrow more at low interest rates than they do at high interest rates.

B) banks lend more at high interest rates than they do at low interest rates.

C) government budget deficits vary inversely with the equilibrium interest rate.

D) banks lend more at low interest rates than they do at high interest rates.

27. The equilibrium interest rate:

A) allocates the available supply of loanable funds to investment projects that have high enough rates of return to justify the borrowing.

B) rises when the supply of loanable funds increases.

C) is the price paid for the use of any resource.

D) affects the size of total output but not the composition of that output.

28. The real interest rate can be estimated by:

A) subtracting the rate of inflation from the nominal interest rate.

B) adding the nominal interest rate with the rate of inflation.

C) subtracting the dollar amount of interest from the dollar amount of the loan.

D) adding the rate of inflation with the expected rate of return.

29. A function of the Federal Trade Commission is to:

A) investigate instances of faulty and misleading advertising.

B) establish railway rates for interstate railroads.

C) ban or recall unsafe consumer products.

D) prevent insider trading in securities markets.

30. Suppose Slow Ketchup requires that, as a condition of purchase, all restaurants using its product must buy and make available its new sales product. This arrangement is an example of:

A) price fixing.

B) an interlocking directive.

C) a tying contract.

D) price discrimination.

31. The main purpose of the antitrust laws is:

A) to encourage firms to produce where *P* > MC.

B) the elimination of both negative and positive externalities.

C) to prevent the monopolization of industries.

D) to prevent the regulation of natural monopolies.

32. Structuralists take the position that:

A) the rule of reason is appropriate and desirable in interpreting the Sherman Act.

B) only unreasonable anticompetitive acts should be regarded as violations of the antitrust laws.

C) industries should be judged on the basis of their technological progress and their price-output behavior.

D) an industry that has a monopolistic structure will behave monopolistically.

33. A firm is likely to be a natural monopoly:

A) when the demand for its product or service is inelastic.

B) if it is producing an inferior good.

C) if economies of scale are experienced over the full range of output.

D) because government grants it an exclusive franchise.

34. A merger between an automobile manufacturer and a maker of automobile tires is an example of a:

A) conglomerate merger.

B) horizontal merger.

C) vertical merger.

D) tying contract.

35. Conspiracies to fix price are:

A) illegal under the Internal Revenue Service Act.

B) illegal under the FDA Act.

C) per se violations of the antitrust laws.

D) more tolerated by government today than two or three decades ago.

**Answer Key – MicroTestThree(Final Exam)**

1. A

2. D

3. B

4. B

5. B

6. C

7. D

8. C

9. D

10. B

11. C

12. B

13. D

14. B

15. A

16. B

17. C

18. D

19. C

20. B

21. C

22. B

23. C

24. A

25. B

26. B

27. A

28. A

29. A

30. C

31. C

32. D

33. C

34. C

35. C